

Message Text

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ACTION EUR-12

INFO OCT-01 ARA-06 NEA-10 IO-10 ISO-00 AID-05 CEA-01

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INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY CARACAS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY KUWAIT

AMEMBASSY JIDDA

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY THE HAGUE

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TAGS: EEC, EFIN

SUBJECT: EC BORROWING FACILITY -- COMMISSION CONTINUES DISCUSSIONS
WITH OPEC COUNTRIES

REFS: ;-. EC BRUSSELS 4046 (NOTAL)

B. EC BRUSSELS 3568 (NOTAL)

C. EC BRUSSELS 2902 (NOTAL)

1. SUMMARY: EC COMMISSION OFFICIALS WILL VISIT SAUDI

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ARABIA AND PERHAPS KUWAIT BEGINNING ON MAY 31 TO DISCUSS

POSSIOLE LOANS TO THE ECBORROWING FACILITY. THE EC FINANCE MINISTERS APPROVED THE COMMISSION'S PLANS TO CONTINUE THESE NEGOTIATIONS BUT SEVERAL CONDITIONS MUST BE MET BEFORE THE C IS READY TO GO ALONG WITH A BORROWING. SEVERAL MEMBER STATES CONTINUE TO BE INTERESTED IN A BORROWING. END SUMMARY.

2. AFTER A NUMBER OF CHANGES IN SCHEDULE, EC COMMISSION VICE PRESIDENT HAFERKAMP IS NOW PLANNING TO ARRIVE IN JIDDA ON SATURDAY EVENING, MAY 31, FOR DISCUSSIONS WITH SAG OFFICIALS CONCERNING A POSSIBLE LOAN FOR THE EC BORROWING FACILITY. HAFERKAMP'S TRIP WAS NEARLY ABORTED AGAIN WHEN SAUDI OFFICIALS HERE INDICATED THAT THEY WERE RECONSIDERING

POSSIBLE LOAN IN LIGHT OF THE C'S RECENT TRADE AGREEMENT WITH ISRAEL. THE SAUDIS DELAYED FIRMING UP PLANS FOR THE RESCHEDULED TRIP UNTIL THE LAST MINUTE. HAFERKAMP'S SCHEDULE CALLS FOR A STOPOVER FOR FOUR OR FIVE DAYS IN JIDDA. HE THEN MAY GO ON TO KUWAIT BUT THIS HAS NOT YET BEEN CONFIRMED. COMMISSION DIRECTOR FOR MONETARY AFFAIRS JOHN NASH AND SEVERAL OTHER OFFICIALS WILL ACCOMPANY HIM. HAFERKAMP WILL JUST BE SOUNDING OUT THE AMOUNTS AND TERM THAT THE SAG AND OTHERS MAY BE PREPARED TO LOAN THE FACILITY.

. SEVERAL EC FINANCE MINISTERS AT THEIR MONTHLY LUNCHEON ON MAY 20 INDICATED A POSSIBLE INTEREST IN BORROWING FROM THE FACILITY, BUT NO ONE MADE A DEFINITE COMMITMENT. ITALY IS THE MOST SERIOUS AND WOULD PERHAPS LIKE TO BORROW UP TO \$2 BILLION IF THE CONDITIONS ARE SATISFACTORY. IRELAND, DENMARK AND THE UK ALSO EVINCE SOME INTEREST. CHANCELLOR OF THE EXCHEQUER HEALEY SAID A LOAN FROM THE FACILITY WAS ONE OF SEVERAL OPTIONS CURRENTLY UNDER CONSIDERATION. THE UK WOULD PREFER FIRST A DRAWING FROM THE IMF BUT IT WANTED TO LOOK AT THE TERMS OF AN EC LOAN. DENMARK WANTS TO HAVE A BETTER IDEA OF WHICH OTHER COUNTRIES MIGHT USE THE FACILITY. LIMITED OFFICIAL USE

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4. THE COMMISSION EXPECTS THAT A SYNDICATE OF COUNTRIES WILL MAKE USE OF THE FIRST BORROWING. COMMISSION OFFICIALS HAVE ESTABLISHED PRIORITIES FOR THE BORROWING SOURCES OF MEMBER STATES: FIRST, LOANS FROM BILATERAL SOURCES, FOLLOWED BY THE IMF OIL FACILITY, THE EC FACILITY AND FINALLY THE OECD STAND-BY FACILITY. THESE OFFICIALS NOTE, HOWEVER,

IT MIGHT BE AWKWARD FOR THE UK TO USE THE IMF OIL FACILITY BECAUSE OF THE GENERAL UNDERSTANDING THAT THE TOP FIVE INDUSTRIALIZED WOULD AVOID TAPPING THE OIL FACILITY'S LIMITED RESOURCES. THE UK MAY, HOWEVER, DRAW DOWN PART OF ITS IMF GOLD TRANCHE BEFORE TURNING TO THE EC FACILITY.

5. ALTHOUGH THEY AGREED FOR THE COMMISSION TO CONTINUE ITS SOUNDINGS, THE FRF FINANCE MINISTER APEL AND DUTCH MINISTER DUISENBERG MADE IT CLEAR AT THE MAY 20 LUNCH THAT NO COMMITMENT HAD BEEN MADE TO GO AHEAD WITH A BORROWING. APEL REAFFIRMED THAT THE COUNCIL MUST FIRST APPROVE THE ECONOMIC POLICY CONDITIONS TO BE FULFILLED BY THE RECIPIENT MEMBER STATE IN ORDER TO BRING ITS PAYMENTS POSITION INTO EQUILIBRIUM. THESE CONDITIONS SHOULD ENSURE THAT THE BORROWER WILL BE CREDIT WORTHY. APEL ALSO NOTED THAT THE REQUEST FOR A BORROWING SHOULD BE JUSTIFIED ON THE BASIS OF A BALANCE OF PAYMENTS DETERIORATION CAUSED BY THE INCREASE IN OIL PRICES. HE ADDED THAT THE EC FACILITY SHOULD BE USED ONLY AFTER BORROWING FROM OTHER POTENTIAL CREDIT SOURCES.

6. COMMENT: COMMISSION OFFICIALS BELIEVE THAT THE EC FINANCE MINISTERS HAVE GIVEN THEM A DIFFICULT ASSIGNMENT. ON THE ONE HAND, POTENTIAL BORROWERS DO NOT WANT TO ASK FOR A LOAN UNTIL THE TERMS ARE CLEARLY ESTABLISHED, AND, ONCE A MEMBER STATE DOES MAKE A REQUEST, THE COUNCIL MAY NOT APPROVE IT. ON THE OTHER HAND, THE COMMISSION CANNOT ENTER INTO SERIOUS DISCUSSIONS WITHOUT HAVING AN IDEA OF THE EC'S REQUIREMENTS. THE EC ESSENTIALLY IS ASKING LIMITED OFFICIAL USE

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FOR A LINE OF CREDIT FROM THE OPEC COUNTRIES WITHOUT PAYING THE CUSTOMARY INTEREST CHARGE.

7. COMMISSION OFFICIALS MAINTAIN THAT NO POTENTIAL OPEC CREDITOR HAS AS YET ASKED FOR POLITICAL CONDITIONS TO BE PLACED ON AN EC BORROWING. THEY SAY THAT THE EC HAS NO INTENTION OF ACCEPTING ANY SUCH CONDITIONS. END COMMENT. GREENWALD

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